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SIPDIS

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TREASURY FOR INTL AFFAIRS
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TAGS: EFIN TU
SUBJECT: ISTANBUL ANALYSTS ON MARKET DEVELOPMENTS, OPTIMISTIC FOR 2005

REF: ANKARA 7105

¶1. (u) Summary: Istanbul market analysts were not surprised at the relatively moderate size of the post-EU decision rally, because they believe that much of the good news had already been priced into the markets during the last few months. They expect, however, that interest in Turkish financial markets will increase beginning early next year, as Turkey attracts a broader base of global investors. End Summary.

¶2. (u) Bender Securities' Murat Gulkan told Econ Specialist that the already upbeat bond market welcomed the Central Bank's rate cut. He noted that Turkish Lira (TL) bond rates dropped by close to 2 percentage points in two working days on Friday and Monday. Murat Cetinkaya, Head of Treasury for Diler Yatirim Bank, told us that fears of a possible crisis in Brussels had contributed to lira weakness in recent weeks. The lira's appreciation on Monday, Cetinkaya explained, merely brought the rate back to its level from two weeks ago against the Euro-dollar basket.

¶3. (u) Both Gulkan and Cetinkaya expect more intensive foreign investor trading following the Christmas and New Year holidays. With many investors preparing to close out their 2004 books, they are likely to wait until January before taking significant new positions. Cetinkaya said he believes that most of the dollar supply came from local banks taking their positions before the foreigners come back. Gulkan said a big-ticket corporate transaction such as Telsim (mobile telephone company), Star (media group), or one of the big banks might also trigger high volume F/X flows early next year. Looking ahead at the coming year, Murat Ucer, an analyst for Eurosource who has generally been a voice of caution, told us that he expects macroeconomic stability throughout the coming year, although growth may slow considerably.

¶4. (u) Comment: Istanbul-based (and some London-based) financial analysts believe that the December 17 EU decision will put Turkey on the radar screens of the big global funds, attracting a broader base of global investors than has been the case up until now. Equity markets of Turkey's Eastern European competitors are already expensive, with the Czech Republic showing a 72 percent increase this year, Hungary 66 percent, and Poland 25 percent. The EU news, coupled with the Central Bank's long-awaited decisions to cut borrowing rates, resume F/X purchase auctions, and adopt inflation targeting, has left analysts bullish on prospects for 2005.

Arnett